

## Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-06 AID-05 EB-07  
NSC-05 CIEP-01 SS-15 STR-04 OMB-01 CEA-01 CIAE-00  
COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04  
SIL-01 L-03 H-01 PA-01 PRS-01 MMO-01 /096 W  
-----211109Z 125840 /10

P R 211011Z JAN 77

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 4931

TREASURY DEPT WASHDC PRIORITY

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION OECD PARIS

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E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: CABINET BUDGET PROPOSALS FOR JFY 1977

REF: TOKYO 0640

1. SUMMARY: GOJ CABINET APPROVED ON JAN 20 ITS BUDGET PROPOSALS FOR JFY 1977 CALLING FOR 17.4 PERCENT INCREASE IN GENERAL ACCOUNT SPENDING AND 18.1 PERCENT INCREASE IN FISCAL LOAN AND INVESTMENT PROGRAM OUTLAYS. GENERAL ACCOUNT DEFICIT EQUAL TO ABOUT 4 1/2 PERCENT OF PROJECTED GNP. BUSINESS COMMUNITY GENERALLY WELCOMES BUDGET ALTHOUGH SOME ARE DISAPPOINTED ABOUT LACK OF PROPOSAL FOR BANK DISCOUNT RATE CUT. END SUMMARY.

2. THE FUKUDA CABINET ANNOUNCED JAN 20 ITS FY 1977 BUDGET PROPOSALS WHICH ARE IN MAIN RESPECTS THE SAME AS MOF BUDGET  
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PROPOSAL REPORTED LAST WEEK IN TOKYO 0640. THE PROJECTED INCREASE IN GENERAL ACCOUNT EXPENDITURES REMAINS AT 17.4 PERCENT. IF DEFLATED BY PROJECTED RISE IN CONSUMER PRICES, THIS REPRESENTS A PROJECTED REAL INCREASE IN EXPENDITURES OF SOME 8-9 PERCENT. DEFICIT IN GENERAL ACCOUNT BUDGET IS UNCHANGED: FORECAST TO INCREASE 16.6 PERCENT FROM YEN 7.3 TRILLION (ABOUT \$25

BIL) IN ORIGINAL FY 1976 BUDGET TO YEN 8.5 TRILLION (\$29 BIL) IN FY 1977. THE LATTER FIGURE REPRESENTS A DEFICIT OF ABOUT 4 1/2 PERCENT OF PROJECTED GNP.

3. BIGGEST CHANGE IN CABINET DRAFT FROM MOF PROPOSALS WAS INCREASE IN PROJECTED OUTLAYS FOR CAPITAL ACCOUNT BUDGET (THE FISCAL LOAN AND INVESTMENT PROGRAM OR FLIP). FLIP OUTLAYS ARE NOW PROJECTED TO RISE ABOUT 18.1 PERCENT (TO YEN 12.5 TRILLION OR \$43 BIL) INSTEAD OF THE 12.1 PERCENT INCREASE PROPOSED BY MOF. WITHIN THE GENERAL ACCOUNT BUDGET, ANOTHER IMPORTANT CHANGE WAS IN ADDITIONAL FUNDING PROVIDED FOR PUBLIC WORKS SPENDING (ALTHOUGH AS NOTED TOTAL GENERAL ACCOUNT EXPENDITURE IS SAME AS IN MOF PROPOSAL). PUBLIC WORKS OUTLAYS, FUKUDA'S CHOICE AS MEANS OF STIMULATING THE ECONOMY, ARE TO INCREASE 21.4 PERCENT IN CABINET PROPOSALS, UP FROM 19.1 PERCENT INCREASE PROPOSED BY MOF.

4. TAX CUTS FOR FY 1977, UNCHANGED FROM MOF PROPOSALS, ARE DESIGNED TO OFFSET IMPACT OF INFLATION ON TAXPAYERS AND ARE PLAYED AS A MINI-TAX CUT AND NOT AS MAJOR CONTRA-CYCLICAL TOOL. TAX REDUCTIONS ARE PROJECTED TO TOTAL EYN 430 BIL (\$1.5 BIL) IN FY 1977 AND ARE PARTIALLY OFFSET BY OTHER TAX INCREASES AMOUNTING TO YEN 168 BIL (\$0.6 BIL).

5. FOLLOWING ARE HIGHLIGHTS OF OTHER CHANGES MADE BY CABINET:

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A. LOCAL GOVT: OVER HALF OF THE INCREASE IN FISCAL LOAN AND INVESTMENT PROGRAM OUTLAYS REPRESENTS INCREASED ALLOCATIONS TO LOCAL GOVT AGENCIES. IT IS EXPECTED THAT MUCH OF THIS INCREASE WILL BE SPENT FOR PUBLIC WORKS INVESTMENT.

B. EXPORT-IMPORT BANK: EXIM BUDGET (DISBURSEMENTS) WILL BE INCREASED ABOUT 15 PERCENT FROM INITIAL JFY 1976 BUDGET, UP SOMEWHAT FROM MOF PROPOSED 12 PERCENT INCREASE.

C. HOUSING: AUTHORIZATIONS FOR GOVT HOUSING CONSTRUCTION PLUS LOANS EXTENDED BY PUBLIC HOUSING LOAN CORPORATION (HLC) TOTAL 3 TRILLION YEN, SLIGHTLY MORE THAN MOF HAD REQUESTED AND A 26 PERCENT INCREASE FROM INITIAL FIGURE FOR JFY 1976. (IT SHOULD BE NOTED, HOWEVER, THAT HLC LOANS TO FINANCE 30,000 OF THE 244,000 UNITS SCHEDULED FOR JFY 1977 WILL IN FACT BE EXTENDED IN JFY 1976.)

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6. JAPANESE BUSINESS COMMUNITY GENERALLY WELCOMED  
REVISED BUDGET, TAKING PARTICULARLY FAVORABLE NOTE  
OF THE 21.4 PERCENT INCREASE IN PUBLIC WORKS SPENDING.  
SOME BUSINESSMEN HAD CALLED FOR A SLIGHTLY LARGER  
INCREASE IN PUBLIC WORKS SPENDING THAN CABINET ULTIMATELY  
APPROVED, AND OTHERS (NOTABLY, SHIGEO NAGANO, PRESIDENT  
OF JAPAN CHAMBER OF COMMERCE AND INDUSTRY) HAVE COMPLAINED  
ABOUT GOJ FAILURE TO PROPOSE DISCOUNT RATE CUT IN  
CONNECTION WITH BUDGET. HOWEVER, MOST BUSINESSMEN APPEAR  
TO HAVE CONCLUDED THAT BUDGET PROPOSED BY CABINET PROVIDES  
AN ACCEPTABLE DEGREE OF STIMULUS, GIVEN CONCERN ABOUT  
INCREASING GOJ DEBT. WITH ATTENTION NOW SHIFTING TO DIET  
DISCUSSION, BUSINESS LEADERS HAVE EXPRESSED SOME CONCERN  
THAT RELATIVELY THIN MAJORITY OF RULING LDP MIGHT MAKE  
RATIFICATION PROCESS DIFFICULT.

7. AS SUGGESTED ABOVE, BUDGET AGGREGATES EXCEPT FOR FLIP  
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PROGRAM, REMAIN AS REPEATED REFTEL. FOLLOWING TABLE SHOWS

## REVISED GOJ PROPOSALS FOR GENERAL ACCOUNT BUDGET EXPENDITURES BY FUNCTION FOR JFY 1977:

|                       | PERCENT CHANGE FROM |           |
|-----------------------|---------------------|-----------|
| (BIL YEN)             | JFY 76 BUDGET       | (INITIAL) |
| TOTAL:                | 28,514.3            | 17.4      |
| SOCIAL SECURITY       | 5,658.1             | 17.7      |
| EDUCATION AND SCIENCE | 3,429.7             | 13.2      |
| NATIONAL DEBT         | 2,348.7             | 41.1      |
| PENSIONS AND OTHER    | 1,133.2             | 14.7      |
| LOCAL FINANCE         | 4,932.6             | 25.1      |
| NATIONAL DEFENSE      | 1,690.6             | 11.8      |
| PUBLIC WORKS          | 4,281.0             | 21.4      |
| ECONOMIC COOPERATION  | 210.9               | 7.1       |
| OTHERS                | 4,479.4             | 3.5       |
| RESERVES              | 350.0               | 16.7      |

## 8. FOLLOWING TABLE SHOWS REVISED GOJ PROPOSALS FOR FISCAL LOAN AND INVESTMENT PROGRAM ALLOCATIONS BY FUNCTION FOR JFY 1977:

|                            | PERCENT CHANGE FROM |       |
|----------------------------|---------------------|-------|
| (BIL YEN)                  | JFY 76 (INITIAL)    |       |
| TOTAL:                     | 12,538              | 18.1  |
| HOUSING                    | 3,043               | 26.1  |
| WATER SUPPLY, SEWERS AND   |                     |       |
| OTHER UTILITIES            | 1,836               | 9.0   |
| WELFARE                    | 412                 | 5.9   |
| EDUCATION                  | 528                 | 105.3 |
| AID TO SMALL-MEDIUM        |                     |       |
| SIZE FIRMS                 | 2,099               | 19.2  |
| AGRICULTURE, FORESTRY      |                     |       |
| AND FISHERY                | 617                 | 19.7  |
| LAND CONSERVATION/DISASTER |                     |       |
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|                               |       |      |
|-------------------------------|-------|------|
| RECONSTRUCTION                | 141   | 25.4 |
| ROADS                         | 891   | 10.6 |
| TRANSPORTATION AND COMMUNICA- |       |      |
| TION                          | 1,291 | 6.5  |
| REGIONAL DEVELOPMENT          |       |      |
| PROGRAMS                      | 350   | 16.7 |
| AID TO BASIC INDUSTRY         | 347   | 15.9 |
| FOREIGN TRADE AND ECONOMIC    |       |      |
| COOPERATION                   | 983   | 13.2 |

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## Message Attributes

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**Disposition Approved on Date:**  
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**Review Media Identifier:**  
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**Type:** TE  
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